

**ALTA MUNICIPAL BROADBAND COMMUNICATIONS UTILITY**  
**(A Component Unit of the City of Alta, Iowa)**

**FINANCIAL STATEMENTS AND  
SUPPLEMENTARY INFORMATION  
WITH  
INDEPENDENT AUDITORS' REPORTS  
FOR THE YEAR ENDED DECEMBER 31, 2009**

# ALTA MUNICIPAL BROADBAND COMMUNICATIONS UTILITY

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# ALTA MUNICIPAL BROADBAND COMMUNICATIONS UTILITY

## OFFICIALS

<b>Name</b>	<b>Position</b>	<b>Term Expires</b>
Jeff James	Trustee	June 2010
Ron Gullickson	Trustee	June 2011
Dennis Weber	Trustee	June 2012
C. Alan Wadsley	Trustee	June 2014
Kevin Walsh	Trustee	June 2015
Ronald Chapman	Superintendent	Indefinite
Tom Houseman	City Clerk/Treasurer	Indefinite

# **O'Donnell, Ficenec, Wills & Ferdig, LLP**

*Certified Public Accountants*

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Dwain E. Wulf, C.P.A.  
Daniel R. Holt, C.P.A.  
Daniel A. Dudley, C.P.A.  
Geoffrey F. Schnathorst, C.P.A.  
Catherine T. Kellogg, C.P.A.

## **INDEPENDENT AUDITORS' REPORT**

Alta Municipal Broadband Communications Utility  
Alta, Iowa

We have audited the accompanying financial statements of the business type activities of each major fund of Alta Municipal Broadband Communications Utility (the Communications Utility), a component unit of City of Alta, Iowa, as of and for the year ended December 31, 2009, which collectively comprise the Communications Utility's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the Communications Utility's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with U.S. generally accepted auditing standards and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe our audit provides a reasonable basis for our opinions.

As described in Note 1, the financial statements of the Communications Utility are intended to present the financial position and results of operations and the cash flows of proprietary fund types of only that portion of the financial reporting entity of the City of Alta, Iowa, that is attributable to the transactions of Alta Municipal Broadband Communications Utility.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the business type activities of each major fund of Alta Municipal Broadband Communications Utility, a component unit of the City of Alta, Iowa, as of December 31, 2009, and the respective changes in its financial position and cash flows for the year then ended in conformity with U.S. generally accepted accounting principles.

In accordance with *Government Auditing Standards*, we have also issued our report dated February 25, 2010, on our consideration of the Communications Utility's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts, grant agreements, and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

Budgetary comparison information on page 14 is not a required part of the basic financial statements, but is supplementary information required by the Governmental Accounting Standards Board. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

Our audit was conducted for the purpose of forming an opinion on the basic financial statements that collectively comprise the Communications Utility's basic financial statements. Other supplementary information contained on page 15 is presented for purposes of additional analysis and is not a required part of the basic financial statements. Such information has been subjected to the auditing procedures applied in our audit of the basic financial statements and, in our opinion, is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

The Communications Utility has not presented Management's Discussion and Analysis that accounting principles generally accepted in the United States has determined is necessary to supplement, although not required to be part of, the financial statements.

O'DONNELL, FICENEC, WILLS & FERDIG, LLP

February 25, 2010

By  \_\_\_\_\_  
Certified Public Accountant

## FINANCIAL STATEMENTS

## ALTA MUNICIPAL BROADBAND COMMUNICATIONS UTILITY

STATEMENT OF NET ASSETS  
 PROPRIETARY FUNDS  
 DECEMBER 31, 2009

ASSETS	Business Type Activities - Enterprise Funds		
	Communications: Telephone Utility Fund	Communications: Cable TV, Internet & Pager Utility Fund	Total
<b>CURRENT ASSETS:</b>			
Cash and Invested Cash	\$ 331,142	\$ 76,196	\$ 407,338
Accounts Receivable, Net of Allowance	31,077	39,783	70,860
Other Current and Prepaid Assets	1,088	1,175	2,263
Total Current Assets	363,307	117,154	480,461
<b>CAPITAL ASSETS:</b>			
Utility Plant, Facilities and Equipment, at Cost	787,203	2,636,846	3,424,049
Accumulated Depreciation	(581,215)	(1,979,326)	(2,560,541)
Total Capital Assets, Net	205,988	657,520	863,508
Total Assets	<u>\$ 569,295</u>	<u>\$ 774,674</u>	<u>\$ 1,343,969</u>
<b>LIABILITIES</b>			
<b>CURRENT LIABILITIES:</b>			
Accounts Payable - Trade	\$ 16,325	\$ 19,410	\$ 35,735
Payroll, Sales and Use Taxes Payable	2,768	3,376	6,144
Deferred Revenue	18,577	37,564	56,141
Total Current Liabilities	37,670	60,350	98,020
<b>NET ASSETS</b>			
Invested in Capital Assets, Net of Related Debt	205,988	657,520	863,508
Unrestricted	325,637	56,804	382,441
Total Net Assets	531,625	714,324	1,245,949
Total Liabilities and Net Assets	<u>\$ 569,295</u>	<u>\$ 774,674</u>	<u>\$ 1,343,969</u>

See Notes to Financial Statements.

## ALTA MUNICIPAL BROADBAND COMMUNICATIONS UTILITY

**STATEMENT OF REVENUES, EXPENSES AND CHANGES IN NET ASSETS**  
**PROPRIETARY FUNDS**  
**FOR THE YEAR ENDED DECEMBER 31, 2009**

	<u>Business Type Activities - Enterprise Funds</u>		
	<u>Communications:</u>	<u>Communications:</u>	
	<u>Telephone</u>	<u>Cable TV,</u>	
	<u>Utility Fund</u>	<u>Internet &amp; Pager</u>	<u>Total</u>
	<u>Utility Fund</u>	<u>Utility Fund</u>	
<b>OPERATING REVENUES:</b>			
Sale of Telephone Services:			
Local	\$ 182,645	\$ -	\$ 182,645
Long Distance	31,662	-	31,662
Access Fees	88,187	-	88,187
Sale of Cable Services:			
Basic Cable	-	253,774	253,774
Premium Channels	-	8,533	8,533
Digital Services	-	23,768	23,768
Directory Advertising	5,821	3,287	9,108
Internet	-	166,381	166,381
Fiber Lease Income	4,200	4,200	8,400
Other Access Fees	2,952	0	2,952
Miscellaneous	6,568	3,670	10,238
Total Operating Revenues	322,035	463,613	785,648
<b>OPERATING EXPENSES:</b>			
Cost of Service and Operations	183,529	250,632	434,161
Maintenance and Distribution Expenses	27,537	36,853	64,390
Administrative General Expenses	94,983	80,535	175,518
Depreciation	18,971	83,398	102,369
Total Operating Expenses	325,020	451,418	776,438
Operating Income (Loss)	(2,985)	12,195	9,210
<b>NONOPERATING REVENUES (EXPENSES):</b>			
Gain (Loss) on Sale or Disposal of Assets	(36)	-	(36)
Net Nonoperating Revenues (Expenses)	(36)	-	(36)
Income (Loss) before Transfers	(3,021)	12,195	9,174
<b>TRANSFERS IN (OUT):</b>			
Transfer from Alta Municipal Utilities	-	11,072	11,072
Capital Contribution (Note 3)	162,493	433,371	595,864
Total Transfers In (Out)	162,493	444,443	606,936
Change in Net Assets	159,472	456,638	616,110
Total Net Assets (Deficit) - Beginning of Year	263,301	(274,931)	(11,630)
Prior Period Adjustments (Note 10)	108,852	532,617	641,469
Total Net Assets - End of Year	\$ 531,625	\$ 714,324	\$ 1,245,949

See Notes to Financial Statements



## ALTA MUNICIPAL BROADBAND COMMUNICATIONS UTILITY

**STATEMENT OF CASH FLOWS**  
**PROPRIETARY FUNDS**  
**FOR THE YEAR ENDED DECEMBER 31, 2009**

	<b>Business Type Activities - Enterprise Funds</b>		
	<b>Communications: Telephone Utility Fund</b>	<b>Communications: Cable TV, Internet &amp; Pager Utility Fund</b>	<b>Total</b>
<b>CASH FLOWS FROM OPERATING ACTIVITIES:</b>			
Cash Received from Customers and Users	\$ 326,040	\$ 462,225	\$ 788,265
Cash Paid to Suppliers for Goods and Services	(245,371)	(279,392)	(524,763)
Cash Paid to Employees Wages and Benefits	(70,368)	(85,098)	(155,466)
Net Cash Flow from Operating Activities	10,301	97,735	108,036
<b>CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES:</b>			
Transfer from Alta Municipal Utilities	-	11,072	11,072
Capital and Construction in Progress Expenditure	(939)	(16,706)	(17,645)
Net Cash Flow from Capital and Related Financing Activities	(939)	(5,634)	(6,573)
Net Increase in Cash and Cash Equivalents	9,362	92,101	101,463
Cash and Cash Equivalents - Beginning of Year	321,780	(15,905)	305,875
Cash and Cash Equivalents - End of Year	<u>\$ 331,142</u>	<u>\$ 76,196</u>	<u>\$ 407,338</u>
<b>RECONCILIATION OF OPERATING INCOME TO NET CASH FLOWS FROM OPERATING ACTIVITIES:</b>			
Operating Income (Loss) (Exhibit B)	\$ (2,985)	\$ 12,195	\$ 9,210
Adjustments to Reconcile Operating Income (Loss) to Net Cash From Operating Activities -			
Depreciation - Capital Assets	18,971	83,398	102,369
Gain (Loss) on Disposal of Assets	(36)	-	(36)
(Increase) Decrease in Operating Assets -			
Accounts Receivable	4,005	(1,389)	2,616
Other Current and Prepaid Assets	544	565	1,109
Increase (Decrease) in Operating Liabilities -			
Accounts and Other Payables	(8,270)	722	(7,548)
Deferred Revenue	12	2,153	2,165
Payroll, Sales and Use Taxes Payable	(1,940)	91	(1,849)
Net Cash Flows from Operating Activities	<u>\$ 10,301</u>	<u>\$ 97,735</u>	<u>\$ 108,036</u>

See Notes to Financial Statements

# ALTA MUNICIPAL BROADBAND COMMUNICATIONS UTILITY

## NOTES TO FINANCIAL STATEMENTS

### NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

#### A. Organization and Nature of Activities -

The City of Alta, Iowa, (the City) owns a telephone system, coaxial cable system, electric light and power system and water treatment system. The telephone and coaxial cable systems are operated independently as Alta Municipal Broadband Communication Utility (the Communication Utility) and the electric and water systems are operated independently as Alta Municipal Utilities (the Utilities). Alta Municipal Broadband Communication Utility is the subject of these financial statements and is governed by a five-member Board of Trustees, appointed by the Mayor with the approval of the City Council. The Trustees exercise all oversight responsibilities.

The Communications Utility provides local and access to long-distance telephone services, cable TV, internet and pager services to a diversified base of residential and commercial customers and other governmental units, primarily within the boundaries of the City. As an independent public utility, state statutes vest authority in the Trustees to set usage and rental rates, prepare financial budgets and maintain books of account for each utility system they operate. The Communications Utility is generally not liable for federal and state income taxes or ad valorem taxes on property, but may make payments in-lieu-of taxes to local government.

#### B. Reporting Entity -

Generally accepted accounting principles requires management to consider if it has oversight responsibility or control over any other legal entity or receives a financial benefit or is a burden in its relationship with such other entity. The Communications Utility has no component units itself, but has determined that it is a component unit of the City of Alta. The Communications Utility reports its financial activity under separate cover herein and independent of the City. These financial statements include only accounts of the Communications Utility.

#### C. Basis of Presentation -

The accounts of the Communications Utility are organized on the basis of enterprise funds, each of which is considered to be a separate accounting entity and each displayed in a separate column in the financial statements. The activities of each fund are accounted for with a separate set of self-balancing accounts, which comprise its assets, liabilities, net assets, revenues and expenses. The Communications Utility reports the following major enterprise proprietary funds: Telephone Utility Fund and Cable TV, Internet and Pager Utility Fund..

Enterprise funds are used to (a) account for the amount by which cost or expenses of providing goods or services to the public are offset by revenue from the sale of such goods or services, or (b) where the governing body has decided determination of revenues earned, expenses incurred, and/or net income is appropriate public policy, accountability, or other purpose.

These financial statements are presented in conformity with U.S generally accepted accounting principles (GAAP) applicable for enterprise funds of governmental entities. In reporting financial activities, the Communications Utility applies all applicable Governmental Accounting Standards Board (GASB) pronouncements, as well as Financial Accounting Standards Board (FASB) statements and interpretations, including statements and interpretations of the FASB issued after November 30, 1989, except those that conflict with or contradict GASB pronouncements.

## NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

### D. Measurement Focus and Basis of Accounting -

Measurement focus refers to what is measured and basis of accounting refers to when revenues and expenditures are recognized and reported in the financial statements. Basis of accounting relates to the timing of the measurement made, regardless of the measurement focus applied.

The Communications Utility's proprietary funds financial statements are reported using the economic resources measurement focus and the accrual basis of accounting. As such, the fund measurement objective is the determination of operating income, changes in net assets, financial position, and cash flows. Under the accrual basis of accounting, revenues are recorded when earned and expenses are recorded when the related obligation is incurred, regardless of the timing of related cash flows. The applicable generally accepted accounting principles are those similar to businesses in the private sector.

The statement of net assets and statement of revenue, expenses and changes in net assets display information about the reporting government business type entity as a whole and by individual funds. They are presented using the full accrual economic resource basis. For the most part, the effect of interfund activity has been removed from these statements. The statement of net assets presents the Communications Utility's assets and liabilities with the remaining difference reported as net assets in three components:

*Invested in capital assets, net of related debt* consists of capital assets, net of accumulated depreciation and reduced by outstanding balances of bonds, notes and other debt attributable to acquisition, construction or improvement of those assets.

*Restricted net assets* results when constraints placed on net asset use are either externally imposed or imposed by law through constitutional provisions or enabling legislation.

*Unrestricted net assets* consist of net assets not meeting the definition of the two preceding components. Unrestricted net assets may have constraints on resources imposed by management which can be removed or modified.

The statement of revenue, expenses and changes in net assets distinguish operating revenues and expenses from non-operating items to display the degree to which operating expenses of a given function are offset by operating revenue. Operating revenues and expenses generally result from providing, producing and delivering goods or services in connection with an enterprise's principal ongoing operations. Operating revenue is primarily charges to customers for sales or services. Operating expenses include the cost of sales, administrative expenses and depreciation on capital assets. Revenue and expenses not meeting this definition are reported as non-operating items.

### E. Use of Estimates -

The preparation of financial statements in conformity with U.S. generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosures of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

## **NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)**

### **F. Revenue Recognition -**

Sale of cable, internet, and telephone services are billed on the 25th of each month for service through the end of the following month. Consequently, billings in the amount of \$56,141 for the month of January have been recorded as deferred revenue. The Communications Utility is billed by its vendors on a calendar month basis for telephone, cable, and internet services.

### **G. Cash and Cash Equivalents -**

The enterprise funds of the Communications Utility combine their cash and invested cash into shared bank accounts at one financial institution. For purposes of cash flows, cash and cash equivalents (nonnegotiable certificates of deposits) are readily convertible to known amounts of cash and, at the day of purchase, have a maturity date no longer than three months..

### **H. Accounts Receivable and Allowances -**

An estimate is made for allowances for doubtful collections based on an analysis of the aging of accounts receivable and on historical write-offs, net of recoveries. Additional specific amounts may be included based on credit risk as deemed appropriate by management.

### **I. Capital Assets -**

Capital assets, which include utility plants, infrastructures, facilities and equipment, are valued at historical cost. The cost of system renewals and betterments includes engineering, labor, construction period interest and other related costs. Preliminary and construction costs of projects not yet in service, if any, are shown in the financial statements as construction in progress. Maintenance and repairs which do not add to the capacity or efficiency of the asset are charged to operating expense.

The Communications Utility does not have a written policy for capitalizing assets. Management determines capitalization or expensing on an individual item basis.

During 2009, Alta Municipal Utilities (a related entity) transferred its ownership of the underground fiber and coaxial cable communication system to Alta Municipal Broadband Communication Utility. The net depreciated cost of the system was \$595,862 at the time of the capital contribution transfer. Alta Municipal Utilities shall have free use of these systems for such time as bonds or other indebtedness regarding or arising out of the construction and purchase of the system remain outstanding, or forty years, whichever comes first. The related debt was not transferred.

Provision for depreciation of production, transmission, and distribution plant is computed on a straight-line basis employing a group method. The original costs of assets retired (not constituting the sale of an operating unit or system) together with the costs of removal less salvage are charged to the related accumulated depreciation accounts. In accounting for the sale of operating units or systems, gains or losses are reflected in net revenue.

Provision for depreciation of general plant is computed on a straight-line basis employing the unit depreciation method. The original cost of property retired is removed from the general plant accounts and the related accumulated depreciation accounts are charged for the depreciation taken to date. Gain or loss is recognized to the extent that the salvage value of the assets retired exceeds or falls short of the remaining book value of the assets retired.

### **J. Budgets and Budgetary Accounting -**

The budgetary comparison and related disclosures are reported as required supplementary information. The budget is prepared on the same basis as these financial statements. During the year ended December 31, 2009, expenses did not exceed the amount budgeted.

## NOTE 2 - CASH AND INVESTED CASH AND POOLED INVESTMENTS

Alta Municipal Broadband Communications Utility and Alta Municipal Utilities pool their deposits and investments and maintain records as to each entities share of the total balance. All deposits at December 31, 2009, were covered by federal depository insurance, or by a multiple financial institution collateral pool in accordance with Chapter 12C of the Code of Iowa. This chapter provides for additional assessments against the depositories to insure there will be no loss of public funds.

Both entities are authorized by statute to invest public funds in obligations of the United States Government, its agencies and instrumentalities; certificates of deposit or other evidences of deposit or savings accounts at federally insured depository institutions approved by the Trustees and Treasurer of the State of Iowa; prime eligible bankers acceptances; certain high-rated commercial paper; perfected repurchase agreements; certain registered open-end management investment companies; certain joint investment trusts, and warrants or improvement certificates of drainage districts.

The Communications Utility had no investments meeting the disclosure requirements of Governmental Auditing Standards Board Statement Number 3, as amended by Statement 40.

Interest rate risk - The Communications Utility's investment policy limits the investment of operating funds (funds expected to be expended in the current budget year or within 15 months of receipt) to instruments that mature within 397 days. Funds not identified as operating funds may be invested in investments with maturities longer than 397 days, but the maturities shall be a consistent with the needs and use of the Communications Utility.

## NOTE 3 - CAPITAL ASSETS

Alta Municipal Utilities, Electric Utility Fund, previously built and paid for an underground fiber and coaxial cable communication system. During 2009, Alta Municipal Utilities transferred this system to the Communications Utility. The Communications Utility allocated twenty-seven percent of the cost to the telephone utility and the remainder to the cable TV and internet utility. The net book value of the assets of \$595,864 is reported as a capital contribution from the Alta Municipal Utilities.

Details of changes in capital asset costs and depreciation reported in enterprise activities are as follows:

	<b>Beginning Balance</b>	<b>Increase</b>	<b>Decrease</b>	<b>Ending Balance</b>
<u>Telephone Utility</u>				
Plant and Equipment Cost	\$ 137,713	\$ 650,549	\$ 1,059	\$ 787,203
Depreciation	76,189	506,049	1,023	581,215
Cost less Depreciation	<u>\$ 61,524</u>	<u>\$ 144,500</u>	<u>\$ 36</u>	<u>\$ 205,988</u>
<u>CATV, Internet &amp; Pager Utility</u>				
Plant and Equipment Cost	\$ 887,718	\$ 1,749,128	\$ -	\$ 2,636,846
Depreciation	596,879	1,382,447	-	1,979,326
Cost less Depreciation	<u>\$ 290,839</u>	<u>\$ 366,681</u>	<u>\$ -</u>	<u>\$ 657,520</u>

#### **NOTE 4 - COMPENSATED ABSENCES**

The Communications Utility employees earn the benefit of certain compensated absences based on length of employment. Vacation hours are accumulated on a calendar year basis with no carryover to subsequent years allowed.

#### **NOTE 5 - PENSION AND RETIREMENT BENEFITS**

The Communications Utility contributes to the Iowa Public Employees Retirement System (IPERS) which is a cost-sharing, multiple-employer defined benefit pension plan administered by the State of Iowa. IPERS provides retirement and death benefits which are established by State statute to plan members and beneficiaries. IPERS issues a publicly available financial report that includes financial statements and required supplementary information. The report may be obtained by writing to IPERS, PO Box 9117, Des Moines, Iowa, 50306-9117.

Plan participants are required to contribute 4.10% of their annual covered salary and the Communications Utility is required to contribute 6.35% of annual covered payroll. Contribution requirements are established by State statute. The Communications Utility's contributions to IPERS for the years ending December 31, 2009, 2008, and 2007, were \$8,457, \$7,936, and \$6,771, respectively, equal to the required contribution for each year.

#### **NOTE 6 - CONCENTRATIONS**

The Communications Utility provides services to commercial and residential customers in a specified service area in and around the City of Alta, Iowa. Credit is granted to substantially all customers, all of whom are local businesses or residents, on terms no more favorable than standard terms of the industry it serves. The Communications Utility's credit risks have been anticipated and management believes that adequate provision has been made for doubtful collections.

#### **NOTE 7 - RISK MANAGEMENT**

The Communications Utility is exposed to various risks of loss related to torts; theft, damage to and destruction of assets; errors and omissions; injuries to employees; and natural disasters. These risks are covered by the purchase of commercial insurance. The Communications Utility assumes liability for any deductibles and claims in excess of coverage limitations. Settled claims from these risks have not exceeded commercial insurance coverage in any of the past three fiscal years.

#### **NOTE 8 - FAIR VALUE OF FINANCIAL INSTRUMENTS**

The carrying amounts reflected in the financial statements for cash and cash equivalents approximate the respective fair values due to the short maturities of those instruments. Management estimates that there are no significant differences between the fair value of financial instruments and the amounts shown as assets and liabilities on the statement of net assets.

#### **NOTE 9 - SUBSEQUENT EVENTS**

Management has evaluated subsequent events through February 25, 2010, which is the date the financial statements were available to be issued, and believes that no events have occurred that require adjustment of, or disclosure in, the financial statements.

## NOTE 10 - PRIOR PERIOD ADJUSTMENTS

The prior period adjustment shown as an increase in net assets consists of the following:

	Telephone Utility	Cable TV Internet Utility	Total
1. Year End Accounts Receivable	\$ (14,220)	\$ -	\$ (14,220)
2. Joint Use Capital Contribution	120,000	530,000	650,000
3. Vacation Accrual	3,072	2,617	5,689
Total	<u>\$ 108,852</u>	<u>\$ 532,617</u>	<u>\$ 641,469</u>

An explanation of each adjustment is as follows:

1. The Communications Utility changed its accounting policy regarding the estimated accrual of revenue earned but not billed for services provided customers for the period from the last billing during the month and the end of the year. An estimate for the last fifteen days of the year will no longer be made.
2. In 2001 the Communications Utility entered into a joint use agreement with Alta Municipal Utilities, whereby the Communications Utility was leasing the underground fiber and coaxial cable communications system from the Alta Municipal Utilities. As a result of this agreement, accruals were made for amounts owed for the use of the system, but the amount, to the extent of \$650,000, was not paid. Management has been determined there is little likelihood that financial resources will ever exist to pay the amount owed. Accordingly, it is agreed to consider the balance a one time capital contribution from the Alta Municipal Utilities to the Communications Utility.
3. During 2009, it was determined that the policy for compensated absences was misinterpreted. The policy is and has been for some time that accrued vacation can not be carried over to the following year. Consequently, a prior period adjustment is needed to remove the December 31, 2008, accrual and properly report the liability as of December 31, 2008, as zero.

## REQUIRED SUPPLEMENTARY INFORMATION



## ALTA MUNICIPAL BROADBAND COMMUNICATIONS UTILITY

**SCHEDULE OF RECEIPTS, DISBURSEMENTS AND CHANGES IN FUND BALANCES -  
BUDGET AND ACTUAL (BUDGET BASIS)  
PROPRIETARY FUNDS  
FOR THE YEAR ENDED DECEMBER 31, 2009**

	Actual	Original and Final Budget Amounts	Actual to Budget Variance
<b>RECEIPTS:</b>			
Charges for Service	\$ 763,350		
Miscellaneous	22,298		
Transfers from Alta Municipal Utilities -			
Operating Transfer to Cable	11,072		
Capital Transfer to Cable	433,371		
Capital Transfer to Telephone	<u>162,493</u>		
Total Receipts	1,392,584	\$ 772,540	\$ 620,044
<b>DISBURSEMENTS:</b>			
Business Type Activities -			
Cost of Service and Operations	434,161		
Maintenance and Distribution	64,390		
Administrative General	175,518		
Depreciation	102,369		
Loss on Disposal of Assets	<u>36</u>		
Total Disbursements	<u>776,474</u>	941,610	165,136
Excess (Deficiency) of Receipts			
Over Disbursements	616,110	<u>\$ (169,070)</u>	<u>\$ 785,180</u>
Balance, Beginning of Year, as Adjusted	629,839		
Balance, End of Year	<u>\$ 1,245,949</u>		

See Independent Auditors' Report.

## **ALTA MUNICIPAL BROADBAND COMMUNICATIONS UTILITY**

### **NOTES TO REQUIRED SUPPLEMENTARY INFORMATION BUDGETARY REPORTING**

In accordance with the Code of Iowa, the Board of Trustees annually adopts a budget on the accrual basis following required public notice and hearing for all funds of the primary government and component units, including the operations of Alta Municipal Broadband Communications Utility (Communications Utility). The annual budget may be amended during the year utilizing similar statutorily prescribed procedures.

The Communications Utility budget was not amended during the year and expenses did not exceed the amount budgeted.

Formal and legal budgetary control is based upon nine major classes of disbursements, known as functions, not by fund or fund type. These nine functions are: public safety, public works, health and social services, culture and recreation, community and economic development, general government, debt services, capital projects and business type activities. Communications Utility's budget is included in the business type activities function. Functional disbursements required to be budgeted include disbursements for the primary government funds and enterprise funds, which would include Communications Utility's disbursements. Although the budget document presents function disbursements by fund, the legal level of control is at the aggregated function level, not by fund.

In accordance with the Code of Iowa, the Board of Trustees annually adopts a budget on the accrual basis following required public notice and hearing. The annual budget may be amended during the year utilizing similar statutorily prescribed procedures.

The budget was not amended during the year and expenses did not exceed the amount budgeted.

## **OTHER SUPPLEMENTARY INFORMATION**

## ALTA MUNICIPAL BROADBAND COMMUNICATIONS UTILITY

SCHEDULE OF EXPENSES  
 PROPRIETARY FUNDS  
 FOR THE YEAR ENDED DECEMBER 31, 2009

	Business Type Activities - Enterprise Funds		
	Communications: Telephone Utility Fund	Communications: Cable TV, Internet & Pager Utility Fund	Total
<b>COST OF SERVICE AND OPERATIONS:</b>			
Wages and Benefits	\$ 17,186	\$ 45,179	\$ 62,365
Other Expenses	444	1,399	1,843
Circuit Fees	19,993	-	19,993
Basic CATV Programming	-	137,367	137,367
Premium Channel Programming	-	8,789	8,789
Digital Programming	-	7,816	7,816
Internet Fees	-	50,082	50,082
Cab Fees	25,230	-	25,230
Switching Fees	65,513	-	65,513
Long Distance Fees	17,024	-	17,024
Access Fees	18,742	-	18,742
Billing Fees	15,693	-	15,693
Transport Fees	3,704	-	3,704
Total Cost of Service	<u>\$ 183,529</u>	<u>\$ 250,632</u>	<u>\$ 434,161</u>
<b>MAINTENANCE AND DISTRIBUTION EXPENSES:</b>			
Wages and Benefits	\$ 4,930	\$ 1,859	\$ 6,789
Property Taxes	-	10,660	10,660
Supplies	8,643	16,665	25,308
Utilities	7,718	7,669	15,387
Operating Expenses	6,246	-	6,246
Total Distribution Operations	<u>\$ 27,537</u>	<u>\$ 36,853</u>	<u>\$ 64,390</u>
<b>ADMINISTRATIVE GENERAL EXPENSES:</b>			
Wages and Benefits	\$ 48,252	\$ 38,060	\$ 86,312
Office Supplies and Postage	3,315	3,300	6,615
Insurance - Employees	6,857	12,367	19,224
Insurance - General	3,690	4,060	7,750
Professional Fees	14,574	5,494	20,068
Telephone	3,016	1,141	4,157
Technical Support	5,819	9,337	15,156
Advertising	5,375	793	6,168
Dues and Subscriptions	1,433	538	1,971

(Continued)

## ALTA MUNICIPAL BROADBAND COMMUNICATIONS UTILITY

SCHEDULE OF EXPENSES  
 PROPRIETARY FUNDS  
 FOR THE YEAR ENDED DECEMBER 31, 2009

	Business Type Activities - Enterprise Funds		
	Communications: Telephone Utility Fund	Communications: Cable TV, Internet & Pager Utility Fund	Total
<b>ADMINISTRATIVE GENERAL EXPENSES:</b>			
(Continued)			
Meetings and Travel	\$ 137	\$ 151	\$ 288
Bad Debts (Recoveries)	(195)	101	(94)
Other Expense	2,710	5,193	7,903
 Total Administrative General Expense	 <u>\$ 94,983</u>	 <u>\$ 80,535</u>	 <u>\$ 175,518</u>
 <b>DEPRECIATION:</b>			
Depreciation - Totals	<u>\$ 18,971</u>	<u>\$ 83,398</u>	<u>\$ 102,369</u>

## OTHER REPORTS

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## **REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS**

Alta Municipal Broadband Communications Utility  
Alta, Iowa

We have audited the accompanying financial statements of Alta Municipal Broadband Communications Utility (the Communications Utility), a component unit of City of Alta, Iowa, as of and for the year ended December 31, 2009, and have issued our report thereon dated February 25, 2010. We conducted our audit in accordance with U.S. generally accepted auditing standards and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

### Internal Control over Financial Reporting

In planning and performing our audit, we considered the Communications Utility's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing our opinion on the effectiveness of the Communications Utility's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the Communications Utility's internal control over financial reporting.

Our consideration of internal control over the financial reporting was for the limited purpose described in the preceding paragraph and would not necessarily identify all deficiencies in internal control over financial reporting that might be significant deficiencies or material weaknesses. However, as discussed below, we identified certain deficiencies in internal control over financial reporting that we consider to be significant deficiencies.

A control deficiency exists when the design or operation of the control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect misstatements on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the Communications Utility's ability to initiate, authorize, record, process, or report financial data reliably in accordance with U.S. generally accepted accounting

principles such that there is more than a remote likelihood a misstatement of the Communications Utility's financial statements that is more than inconsequential will not be prevented or detected by the Communications Utility's internal control over financial reporting. We consider the deficiencies described in Part II of the accompanying Schedule of Findings and Questioned Costs to be significant deficiencies in internal control over financial reporting.

A material weakness is a significant deficiency, or combination of significant deficiencies that results in more than a remote likelihood a material misstatement of the financial statements will not be prevented or detected by the Communications Utility's internal control over financial reporting.

Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in internal control over financial reporting that might be significant deficiencies and, accordingly, would not necessarily disclose all significant deficiencies that are also considered to be material weaknesses. However, we believe that none of the significant deficiencies referred to above is a material weakness.

#### Compliance and Other

As part of obtaining reasonable assurance about whether the Communications Utility's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of law, regulations, and contracts, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

Comments involving statutory and other legal matters about the Communications Utility's operations for the year ended December 31, 2009, are based exclusively on knowledge obtained from procedures performed during our audit of the financial statements of the Communications Utility. Since our audit was based on tests and samples, not all transactions that might have had an impact on the comments were necessarily audited. The comments involving statutory and other legal matters are not intended to constitute legal interpretations of those statutes.

The Communications Utility's responses to findings identified in our audit are described in the accompanying Schedule of Findings and Questioned Costs. While we have expressed our conclusions on the Communications Utility's responses, we did not audit the responses and, accordingly, we express no opinion on them.

This report, a public record by law, is intended solely for the information and use of the officials, employee, and citizens of Alta, Iowa, and other parties to whom Alta Municipal Broadband Communications Utility may report. This report is not intended to be and should not be used by anyone other than these specified parties.

O'DONNELL, FICENEC, WILLS, & FERDIG, LLP

By   
\_\_\_\_\_  
Certified Public Accountant

February 25, 2010



ALTA MUNICIPAL BROADBAND COMMUNICATIONS UTILITY

SCHEDULE OF FINDINGS AND QUESTIONED COSTS  
YEAR ENDED DECEMBER 31, 2009

**PART I: SUMMARY OF THE INDEPENDENT AUDITORS' RESULTS:**

- (a) An unqualified opinion was issued on the financial statements.
- (b) The audit did not disclose any noncompliance which could have a material effect on the financial statement amounts.
- (c) No material weaknesses in internal controls were noted.

**PART II: FINDINGS RELATED TO THE FINANCIAL STATEMENTS:**

Instances of Non-Compliance:

No matters were noted.

Significant Deficiencies:

**II-A-09 Segregation of Duties** - One important aspect of internal control is the segregation of duties among employees to prevent an individual employee from handling duties which are incompatible. We noted that bank deposits, opening mail, recording receipts and disbursements, checks and payroll preparation, and bank reconciliations are all handled by two individuals.

**Recommendation** - We realize that with a limited number of office employees, segregation of duties is difficult. However, the Communications Utility should review its control procedures to obtain the maximum internal control possible under the circumstances.

**Response** - The Communications Utility will continue to cross-train office employees in an attempt to alleviate the problem. This problem may never be one hundred percent cured due to the limited number of employees to perform the duties.

**Conclusion** - Response accepted.

**II-B-09 Electronic Data Processing Systems** - During our review of internal control, the existing control activities in the Communications Utility's computer-based systems were evaluated in order to determine that activities, from a control standpoint, were designed to provide reasonable assurance regarding the achievement of objectives in the reliability of financial reporting, effectiveness and efficiency of operations, and compliance with applicable laws and regulations. The following weaknesses in the Communications Utility's computer-based systems were noted:

ALTA MUNICIPAL BROADBAND COMMUNICATIONS UTILITY

SCHEDULE OF FINDINGS AND QUESTIONED COSTS  
YEAR ENDED DECEMBER 31, 2009

PART II: FINDINGS RELATED TO THE FINANCIAL STATEMENTS: (Continued)

Significant Deficiencies: (Continued)

II-B-09 **Electronic Data Processing Systems** (Continued) -

The Communications Utility does not have written policies for:

Password privacy and confidentiality,  
Requiring regular password changes to log into software,  
Insuring that only properly licensed software is installed on computers

Also, the Communications Utility does not have a written disaster recovery plan.

**Recommendation** - The Communications Utility should develop written policies addressing the above items in order to improve the Communications Utility's control over computer based systems and a written disaster recovery plan should be developed.

**Response** - The Communications Utility is trying to locate a written policy that, with modifications, will fit our application. The Communications Utility will continue to pursue options to develop a written policy.

**Conclusion** - Response accepted.

II-C-09 **Financial Reporting** - We noted that while management is capable of preparing accurate financial statements that provide information sufficient for Utility board members to make management decisions, reporting financial data reliably in accordance with U.S. generally accepted accounting principles (GAAP) requires management to possess sufficient knowledge and expertise to select and apply accounting principles and prepare year-end financial statements, including footnote disclosures. Management presently lacks the qualifications and training to appropriately fulfill these responsibilities, which is a common situation in small entities.

**Recommendation** - Obtaining additional knowledge through reading relevant accounting literature and attending local professional education courses should help management significantly improve in the ability to prepare and take responsibility for reliable GAAP financial statements.

**Conclusion** - Response accepted.

## ALTA MUNICIPAL BROADBAND COMMUNICATIONS UTILITY

### SCHEDULE OF FINDINGS AND QUESTIONED COSTS YEAR ENDED DECEMBER 31, 2009

#### PART III: OTHER FINDINGS RELATED TO REQUIRED STATUTORY REPORTING:

- III-A-09 **Official Depositories** - The Board of Trustees has approved a resolution naming official depositories. The maximum deposit amount stated in the resolution was not exceeded during the year ended December 31, 2009.
- III-B-09 **Certified Budget** - Utility expenses during the year ended December 31, 2009, did not exceed the amount budgeted.
- III-C-09 **Questionable Expenditures** - No disbursements were noted that may meet the requirements of public purpose as defined in an Attorney General's opinion dated April 25, 1979.
- III-D-09 **Travel Expense** - No disbursements of Utility's money for travel expenses of spouses of Utility's officials or employees were noted.
- III-E-09 **Business Transactions** - Business transactions between Alta Municipal Broadband Communications Utility and the Utility's officials are immaterial and meet the guidelines of the Code of Iowa.
- III-F-09 **Bond Coverage** - Surety bond coverage of Utility officials and employees is in accordance with statutory provisions. The amount of coverage should be reviewed annually to insure that the coverage is adequate for current operations.
- III-G-09 **Trustee Minutes** - No transactions were found that we believe should have been approved in the Trustee minutes but were not.
- III-H-09 **Deposits and Investments** - We noted no instances of non-compliance with the deposit and the investment provisions of Chapter 12B and 12C of the Code of Iowa and the Alta Municipal Broadband Communications Utility investment policy were noted.
- III-I-09 **Telecommunications Services** - The net assets of December 31, 2008, reflected a deficit balance of \$11,630, which appears to be in noncompliance with Chapter 388.10 of the Code of Iowa. However, that deficit was partly created by a joint use agreement with the Alta Municipal Utilities which required the Communications Utility to pay monthly fees for the use of the telecommunication assets built by Alta Municipal Utilities. Those fees were accrued in past years, but remained unpaid to the extent of \$650,000. Due to the unlikelihood of this debt ever being paid, it was agreed that the Alta Municipal Utilities, electric utility, would make a one time capital contribution to the Communications Utility in settlement of this obligation. Additionally, during 2009, Alta Municipal Utilities, electric utility, made another one time capital contribution of \$595,863 to transfer those same telecom assets to the Communications Utility. These two transactions do not appear to be in violation of Chapter 388.10 of the Code of Iowa.

**ALTA MUNICIPAL BROADBAND COMMUNICATIONS UTILITY**

**SCHEDULE OF FINDINGS AND QUESTIONED COSTS  
YEAR ENDED DECEMBER 31, 2009**

**PART III: OTHER FINDINGS RELATED TO REQUIRED STATUTORY REPORTING: (Continued)**

Recommendation - The Communications Utility should consult an attorney to determine whether or not these two transactions violate Code 388.10.

Response - The Communications Utility will and has written a letter to their attorney seeking a legal opinion.

Conclusion - Response accepted.